

Ms. Margaret Liston
Chief, Financial Management Section
California Department of Health Care Services
Medi-Cal Managed Care Division
1501 Capitol Avenue, PO Box 997413
MS 4400
Sacramento, CA 95899-7413

FINAL

December 13, 2010

Amendment to original certification dated February 14, 2008, revision dated November 25, 2009, and revision dated November 3, 2010

Subject: Amendment to the County Organized Health System (COHS) fiscal year 2008–2009 rate range development and certification: San Luis Obispo County

Dear Ms. Liston:

The California Department of Health Care Services (DHCS) contracted with Mercer Government Human Services Consulting (Mercer) to develop actuarially sound capitation rate ranges for use during the fiscal year 2008–2009 (FY08–09) COHS contract period for San Luis Obispo County. The FY08–09 contract period began March 1, 2008, and ended June 30, 2009. This amendment to the certification is to provide more detail related to the various components of the certification letter and the capitation rate calculation sheets (CRCS) that contain the numeric build-up of the capitation rates. This amendment is to address questions raised by CMS during a conference call on December 3, 2010.

This letter presents an overview of the information contained in the certification letter and the CRCS detail used in Mercer's revised managed care rate range development. Please note that the headings used below correspond to the sections of the original and revised certification letters or CRCS information, and any additional detail related to these topics can be obtained from the previous letters or CRCS information.

Rate methodology

Base data

Two years of base data, as reflected in columns (A) through (F) in the CRCS, are blended as described in the original certification letter to form the final base data used in the rate development. Final base data are presented by category of service (COS) as annual

utilization per 1,000 members, average unit cost and resulting per member per month (PMPM) calculations, and are reflected in columns (G), (H) and (I) of the CRCS.

Category of aid groupings

The various category of aid (COA) groupings are each represented by their own separate CRCS.

Trend

Annual trend figures for utilization per 1,000 and unit cost are reflected in columns (J) and (K) of the CRCS. These annual trend figures are applied for the number of months represented in the "Time Periods" section in the upper right hand corner of the CRCS. The number of trend months is determined by comparing the midpoint of the base period to the midpoint of the rating period.

Program changes

Program change adjustments are developed based on a "utilization per 1,000" or a "unit cost" basis. These adjustments are reflected in columns (L) and (M) of the CRCS. The various program changes are calculated at the COA and COS level. Multiple program changes may be reflected within a final percentage represented in a given COA and COS field. For the AB 1653 program change update, the existing (prior to AB 1653) inpatient, outpatient hospital and emergency room COS unit cost program changes were supplemented with the new adjustments to reflect the impact of AB 1653 for the applicable COAs.

Projected fee-for-service equivalent (FFSE)

Columns (N), (O) and (P) of the CRCS represent the resulting utilization per 1,000, unit cost and PMPM after the annual trend factors have been applied for the appropriate number of months, and the program changes have also been included. The factors are applied as a percentage increase or decrease. For example, a 5% unit cost trend for 30 months and a 20% program change on a base data unit cost of \$100 would produce a result of \$135.57 [$\$100 * \{1.05^{(30/12)}\} * 1.20$].

Managed care assumptions

Columns (Q) and (R) of the CRCS represent the managed care assumptions and are developed on a "utilization per 1,000" and "unit cost" basis. These numbers are displayed as factors to apply to the FFSE data, which has already had trend and program changes applied.

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Projected managed care

Columns (S), (T) and (U) display the resulting utilization per 1,000, unit cost and PMPM after managed care assumptions have been applied to the FFSE data. For example, a 0.9 factor for unit cost on a FFSE data unit cost of \$135.57 would produce a result of \$122.01 [$\$135.57 * 0.9$].

If you have any questions on any of the above, please feel free to contact Mike Nordstrom at +1 602 522 6510, Jim Meulemans at +1 602 522 8597 or Branch McNeal at +1 602 522 6599.

Sincerely,

Handwritten signature of Michael E. Nordstrom in blue ink, followed by the text "ASA, MAAA" in blue.

Michael E. Nordstrom, ASA, MAAA

Handwritten signature of James J. Meulemans in blue ink, followed by the text "ASA, MAAA" in blue.

James J. Meulemans, ASA, MAAA

MEN/JJM/lgm

Copy:
Stuart Busby, DHCS
Gary McHolland, DHCS
Sundee Easter, Mercer
Branch McNeal, Mercer